

STATE OF INDIANA
PUBLIC EMPLOYEES' RETIREMENT FUND
ACTIVE MEMBERS' UPDATE

FRANK O'BANNON, GOVERNOR



E. WILLIAM BUTLER, EXECUTIVE DIRECTOR

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MESSAGE FROM THE EXECUTIVE DIRECTOR
E. William Butler

As we begin the 21st century at the Public Employees' Retirement Fund, allow me to take this opportunity to introduce myself. The Board of Trustees of PERF, with the recommendation of the Governor, named me Executive Director about a year and a half ago. Prior to that, I was the Chief Operating Officer of the Police and Fire Pension Fund in Columbus, Ohio. My wife, Lynn, and our son, Kevin, recently moved here and we are glad to say we are now Hoosiers.

When I began the job of Executive Director, I spent a great deal of time getting the "lay of the land." I wanted to understand how PERF works and what the important issues are. If I have learned one thing, it is that things are changing—for the better.

Our fundamental philosophy here at PERF recognizes that we are a service organization. Our job is to safeguard the assets entrusted to us and pay retirement benefits to our members. You are our customers and owe you the best possible service. At the same time, we recognize that we can always do better.

We have recently begun a number of initiatives at the Fund that will build on the legislative changes enacted by the General Assembly over the last few years and enable us to give you better and more efficient service. Combined with the referendum to allow investment in the equity markets adopted by the voters in 1996, the legislature has positioned PERF to become one of the best public pension funds in the country. One of our goals is to enhance customer service by increasing your access to information and doing our jobs more efficiently.

This newsletter is one example of what we hope to do in the future. We will report to you about PERF on a regular basis. We also invite your comments and reactions to anything you might read. Please feel free to drop us a line, give us a call or send us an e-mail message. In addition, members of the staff are always available to address your group or gathering.

There will be much to report as we move forward because there is much going on. For now, I want to say again how pleased I am to have been entrusted with the position of Executive Director and pledge to you that the staff and I will do our best to serve your needs.

**BETTER CUSTOMER SERVICE
 THROUGH ENHANCED TECHNOLOGY**
Diann Clift, M.I.S. Director

The Public Employees' Retirement Fund (PERF) is faced with the need to provide more services to an ever-increasing number of members as the wave of baby-boomers nears retirement. Updating old technology and redesigning outdated business processes have proven to be viable options in meeting this need.

In May of 1999, PERF along with the Indiana Teachers' Retirement Fund (TRF), has engaged Complete Business Solutions, Inc. (CBSI) to design and develop a state of the art pension administration system that will replace the two mainframe systems each Fund utilizes separately. This \$13 million, 27-month project is being done to allow both agencies to make better use of technologies and position staff to better serve their members.

While PERF and TRF will be sharing a common computer system, the agencies themselves will not be combined. The sharing of a common computer system is rather unique, but was a perfect fit as PERF and TRF perform very similar business functions. Sharing a system will serve current and future business processes while greatly reducing overall project costs of implementing two separate systems.

CBSI is a worldwide provider of information technology (IT) services to large and mid-sized organizations. They employ more than 5,000 IT professionals in 10 development centers and over 30 branches throughout North America, Europe and Asia-Pacific. CBSI has a strong international reputation for assisting public retirement systems with solutions to their IT challenges. Along with PERF and TRF, CBSI counts the States of Ohio, Oregon, Nevada, Mississippi and California among its public retirement clients.

Over the next two years, PERF will be busy redesigning our processes, cleaning up data, and continuing to learn how we can use technology to provide better services to our members. Throughout this project, members will continue to receive services, including monthly benefit checks, as they have in the past. Although this project will take much effort, it will take PERF a long way toward meeting their goal of utilizing technology to increase the quality and range of service to our members.

THE TWO-PART PERF BENEFIT STRUCTURE

Patrick Lane, *Executive Assistant / Editor*

As you may have seen on your previous Quarterly Member Statements of Account, we reported to you an extremely important fact—at retirement, your benefit from the State of Indiana will be paid to you from two sources: the Annuity Savings Account and the Defined Benefit plan. The 3% employee contributions either you or your employer have made over the life of your public employment have gone into the Annuity Savings Account, while a separate contribution from your employer(s) has gone into the Defined Benefit plan. When you retire, you have the option of withdrawing the Annuity Savings Account in one lump sum total distribution or “annuitizing” it, which simply means that you chose to receive monthly payments for the rest of your life. Your Defined Benefit plan benefits are always paid in monthly installments over the rest of your life; you do not have the lump sum option with your defined benefit. The amount of your monthly benefit can be significantly increased when you “annuitize” your Annuity Savings Account and combine those payments with the your Defined Benefit payments. Don’t forget the IRS will want a small portion of that, as well. The state legislature defines the benefit with a formula:

HOW TO CALCULATE YOUR RETIREMENT BENEFITS

Follow these steps to estimate your monthly retirement benefits under PERF

Step A

1. Enter the best estimate of your **ANNUAL AVERAGE OF HIGHEST FIVE YEARS OF SALARY** Average here. This figure represents the average of your earnings for your five highest years of creditable service under PERF.
2. Multiply your average salary by **1.1%**.
3. Enter here Line 1 multiplied by Line 2.

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Step B

4. Multiply the amount entered in Line 3 by your **YEARS OF CREDITABLE SERVICE IN A PERF-COVERED POSITION**
5. Enter here Line 4 multiplied by Line 3.

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Step C

6. Multiply the amount entered in Line 5 by the pension factor based on your retirement age in Table 1 or 2 (*opposite side of this page*), whichever may pertain to your situation.
7. Enter here Line 6 multiplied by Line 5.

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Step D

8. Multiply the amount entered in Line 7 by the pension factor based on your retirement option in Table 3 (*opposite side of this page*).
9. Enter here Line 8 multiplied by Line 7. This is the amount of your annual employer-financed defined pension benefit. If you choose to receive your Annuity Savings Account in a one-time total distribution payment. *Proceed to Line 12.*

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Step E

10. If you choose to receive your Annuity Savings Account as a monthly supplement to your employer-financed defined pension benefit, multiply the amount entered in Line 10(a) by **1.15***. This figure adjusts the amount in Line 9 to include benefits furnished by the Annuity Savings Account. *Proceed to Line 11.*
11. Enter here Line 9 multiplied by Line 10(b). This is your estimated total annual benefit.

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Step F

12. Divide your estimated annual benefit here by 12 to determine estimated monthly benefit.
13. Enter your estimated monthly benefit here.

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* The 1.15 annuity factor used in Line 10(b) of Step E is only for the purposes of estimation and is not an exact determination of your annuity benefit. Your annuity benefit will be calculated precisely using an annuity factor that considers your age, service, retirement option and annuity savings account balance. However, for purposes of estimation, the annuity savings account has historically represented approximately 15 percent of the monthly benefit for those members who chose a retirement option that combines the Annuity Savings Account with the employer-financed defined pension benefit.

HOW TO CALCULATE YOUR RETIREMENT BENEFITS

TABLE 1: Age and Service for Normal Retirement with Full (unreduced) Pension

Age	Service
65	10 Years
60 through 64	15 Years
59 *	26 Years *
58 *	27 Years *
57 *	28 Years *
56 *	29 Years *
55 *	30 Years *

Note: To estimate your pension, use the age factor of 100% (1.000) in Step C of the benefit calculation.

* If a member's age or years of service is a combination of years and months, the Rule of 85 still applies. For example, a member is 55 years and 3 months old and has 29 years and 9 months of creditable service. The combined total of age and years of service equals 85. However, the member must be at least 55 years of age to qualify for full, unreduced benefits under the Rule of 85.

TABLE 2: Age Factors for Early Retirement with a Reduced Pension

Retirement Age	Percentage of Pension
59	.89
58	.84
57	.79
56	.74
55	.69
54	.64
53	.59
52	.54
51	.49
50	.44

Note: The age factors in this table apply only to the member who has 15 or more years of creditable service, but has yet to reach the minimum age of 60 to qualify for normal retirement with a full, unreduced pension. In Step C of the benefit calculation, use the factor in this table that applies to you.

TABLE 3: Pension Factors Based Upon Your Retirement Option

Retirement Option	Factor
10 – Normal Retirement The member will receive a monthly benefit for life. If the member dies before receiving benefits for five years, their beneficiary will receive the remainder of those five years or the present value of those remaining in a lump sum distribution.	1.00
20 – No Guarantee The member will receive a monthly benefit for life, but there are no payments to a beneficiary after the member's death. As a result, this option will provide the largest payment to a retired member of all retirement options available.	1.01
30 – Joint with Full Survivor Benefits The member will receive a monthly benefit for life. Upon the member's death, the same monthly benefit will be paid to the beneficiary for his/her life. This option will provide a beneficiary payment less than that of an Option 20 payment.	0.85*
40 – Joint with Two-Thirds Survivor Benefits The member will receive a monthly benefit for life. Upon the member's death, two-thirds of the monthly benefit will be paid to the beneficiary for his/her life. This option will provide a beneficiary payment that equals two-thirds of that under an Option 30 payment.	0.90*
50 – Joint with One-Half Survivor Benefits The member will receive a monthly benefit for life. Upon the member's death, one-half of the monthly benefit will be paid to the beneficiary for his/her life. This option will provide a beneficiary payment that equals one-half of that under an Option 30 payment.	0.93*
71 – Cash Refund of Annuity The member will receive a monthly benefit for life. Like Option 10, if the member dies before receiving benefits for five years, the beneficiary will receive either a monthly benefit (the employer pension amount only) for the remainder of those five years, or the present value of those remaining payments in a lump sum. Also upon the member's death, the beneficiary will receive a single payment of the amount remaining in your annuity savings account. NOTE: Option 71 is not available to members who elect to receive total payment of their annuity savings account upon retirement. However if members elect a distribution of their 12/31/86 basis (a partial withdrawal), Option 71 is available.	0.95*

Note: If you and your beneficiary live to the actuarial-expected age, benefits paid under each option are equal.

* These factors assume that the beneficiary is within 5 years of the member's age.

Financial planning can be an intimidating prospect, but like anything else, a solid plan can lead to great success. A good plan starts with understanding what your needs will be in your retired years. Whether you are trying to decide how you will spend your time, or what health and family matters you will be faced with, it is important to realize that PERF is one piece of your financial foundation in retirement. Remember that personal savings and investments, along with Social Security, should also be considered in your efforts to put together a solid financial plan.

LEGISLATIVE IMPROVEMENTS TO PENSION SECURITY

Mark Webb, Deputy Director/ General Counsel

William Hutchinson, Director of Benefits Administration

The conclusion of the First Regular Session of the 111th Indiana General Assembly has brought some statutory changes to the laws that govern the Public Employees' Retirement Fund. These changes are intended to be member-friendly and to help PERF as it constantly strives to improve its customer service to active and retired public employees. This legislation is primarily contained within House Enrolled Act 1093 signed by Governor Frank O'Bannon. The new changes become effective as noted below and speak to the following issues:

1. VALUATION OF ANNUITY SAVINGS ACCOUNT

Effective July 1, 1999

When a member makes an investment selection for their Annuity Savings Account, it will become effective as of the last day of the quarter following the selection date. Also, when a member separates from employment, retires, or becomes disabled, the amount of their alternative investment options (all options other than the Guaranteed Fund) is the market value of the account on the last day of the quarter prior to separation, retirement, or disability date. A member's balance in the Guaranteed Fund is computed as of the last day prior to separation, retirement, or disability date and is based on contributions and earnings without regard to market value.

2. BENEFICIARY SELECTION

Effective July 1, 1999

Allows a retired member to change his or her retirement benefit or designated beneficiary under two circumstances. First, when the designated beneficiary dies while the member is receiving benefit. Or, second, when the member is receiving benefits, the member marries, either for the first time or following the death of the member's spouse, and the member's designated beneficiary is not the member's new spouse. The member may name anyone as the new beneficiary. They need not necessarily name their spouse as the new beneficiary.

Effective July 1, 2000

Allows a member to designate their beneficiary on their retirement application that would supercede any previous designation. Also allows a member to select a different beneficiary for the Annuity Savings Account than the member's beneficiary for the pension portion of the retirement benefit.

3. RE-EMPLOYMENT AFTER RETIREMENT

Effective 1999-2002

Stipulates the earnings limitations for a member who is receiving retirement benefits and is re-employed in a PERF-covered position. The earnings limitations outlined under the federal Social Security System Normal Retirement Age Limit for a member entitled to receive unreduced Social Security benefits will dictate the level of salary a member can earn before having to discontinue the PERF retirement benefit. Members currently receiving a benefit must have a ninety-(90) day separation of service before returning to a PERF-covered position and continue to receive the benefit. The earnings limitations for Social Security beneficiaries aged sixty-five (65) to sixty-nine (69) for the years 1999-2002 is as follows:

1999 -	\$15,500
2000 -	\$17,000
2001 -	\$25,000
2002 -	\$30,000

After the year 2002, the annual exempt amount will be indexed to the growth in annual wages.

4. PURCHASE OF OUT-OF-STATE SERVICE CREDIT

Effective July 1, 1999

Indiana law now allows for the purchase of out-of-state service credit with PERF. In order to qualify for the purchase of this credit you must meet the following criteria:

- You must have at least one year of service in a PERF-covered position;
- Prior service in another state must be in a comparable position that would be creditable service if performed in the State of Indiana;
- The funds used for the purchase must come from either a rollover of a member's interest in a retirement plan of a former employer which is covered under Section 401(a) of the Internal Revenue Code, or the member's interest in an individual retirement account (IRA) covered under Section 408 of the Internal Revenue Code. However, the individual retirement account may only contain assets that were previously distributed to the member by an employer plan covered under Section 401(a) as a lump sum distribution that are eligible for tax-free rollover treatment and deposited into the individual retirement account within 60 days of receipt;
- You are no longer eligible to use those years of creditable service to claim a retirement benefit from any other retirement system.

5. PURCHASE OF ADDITIONAL SERVICE FOR POLICE OFFICERS AND FIREFIGHTERS

Effective July 1, 1999

Allows inactive former members of the 1925, 1937, or 1953 police and fire pension funds, who did not vest for a benefit in those funds, to purchase that service in PERF at full actuarial cost. A member must have ten (10) years of service other than that purchased under this provision in order to receive a benefit based on the purchase of this service.

6. PAY-OUTS OF INACTIVE ACCOUNTS

Effective July 1, 1999

Allows the PERF Board of Trustees to "cash out" or suspend and refund the amount in a member's account if the balance is less than \$200 and there has been no activity on the account for a period of at least two (2) years.

7. ADOPTION LEAVE

Effective July 1, 1999

Allows up to one (1) year of adoption leave credit in addition to the other leaves of absence permitted under PERF statutes, and will be handled in the same way as military service credit and service credit for unpaid leave.

MY, HOW THINGS HAVE CHANGED!

Patrick Lane, *Executive Assistant / Editor*

The beginning of the new millenium gives us the opportunity to take pause and look back at how the Plan has grown over the past half century. On January 1, 1946, PERF opened its doors and became only the 23rd state to provide a retirement plan for public employees. Now all 50 states have similar plans and have become major influences upon the world economy in their investment activities. We thought it would be interesting to see how a few things are different now as compared to the 1940s.

The Public Employees' Retirement Fund is a retirement system consisting of six separate pension funds:

- PUBLIC EMPLOYEES' RETIREMENT FUND
- 1977 POLICE OFFICERS' AND FIREFIGHTERS' PENSION & DISABILITY FUND
- 1977 AND 1985 JUDGES' RETIREMENT SYSTEMS
- EXCISE POLICE AND CONSERVATION ENFORCEMENT OFFICERS' RETIREMENT PLAN
- LEGISLATORS' RETIREMENT SYSTEM
- PROSECUTING ATTORNEYS' RETIREMENT FUND

As you can see, we take our name from the largest of these managed funds. In addition to this, PERF manages the Pension Relief Fund, which was designed by the state legislature to help relieve the unfunded liability of the pre-1977 police and fire funds that are administered by the local cities and towns around the state. The legislature has appropriated money on a regular basis to this fund to help relieve the financial burdens placed on local government for the expenses of those benefit payments.

By 1947, PERF had approximately 8,500 active participants. Now the fund has nearly 190,000 members. Forty-three local government offices joined the Fund during its first year. Now, including the State of Indiana and its various agencies, PERF services over 1,100 separate public employers statewide. Two hundred twenty retired members received a monthly benefit check in January of 1947. In September of 1999, 50,649 retired or disabled public employees received pension and disability benefits from PERF. An average of 36 members retired each month in late 1946. Now PERF processes an average of more than 300 new retirement applications each month.

The assets we invest to fund your retirement benefits have grown by leaps and bounds. The Financial Statement for PERF as of June 30, 1947, reported fund assets as being just over \$10.5 million. As of September 30, 1999, PERF assets were approximately \$10.2 *billion*. We take great pride in being one of the 100 largest pension funds in the country, which makes us one of the largest in the world, and we will continue to strive to better serve you as a member the state's largest pension fund.

Investment assets aren't the only things growing with respect to our management responsibilities. As the complexity and

diversity of public services continues to increase, Indiana's public employers continue to move more and more of their new and existing workforce into membership of the various funds under the PERF umbrella. The current active membership levels for each of the funds are as follows:

- PUBLIC EMPLOYEES' RETIREMENT FUND
189,974 MEMBERS
- 1977 POLICE AND FIRE PENSION & DISABILITY FUND
9,451 MEMBERS
- 1977 AND 1985 JUDGES' RETIREMENT SYSTEM
285 MEMBERS
- EXCISE POLICE AND CONSERVATION ENFORCEMENT OFFICERS' RETIREMENT PLAN
273 MEMBERS
- LEGISLATORS' RETIREMENT SYSTEM
98 MEMBERS
- PROSECUTING ATTORNEYS' RETIREMENT FUND
226 MEMBERS

Total Plan Information

QUARTER ENDING SEPTEMBER 30, 1999

TOTAL PLAN BENEFITS PAID:

\$ 75,729,099

EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT:

\$ 75,407,893

EMPLOYEE CONTRIBUTIONS

- PERF ANNUITY SAVINGS ACCOUNT
\$ 26,857,974
- ALL OTHER FUNDS
\$ 5,713,579

ANNUITY SAVINGS ACCOUNT ALTERNATIVE INVESTMENT INFORMATION *

- GUARANTEED FUND PARTICIPANTS:
171,044 MEMBERS
- BOND FUND PARTICIPANTS:
4,902 MEMBERS
- MONEY MARKET FUND PARTICIPANTS:
3,644 MEMBERS
- S&P 500 STOCK INDEX FUND PARTICIPANTS:
32,437 MEMBERS
- U.S. SMALL COMPANY STOCK FUND PARTICIPANTS:
14,112 MEMBERS

* PERF is the only fund with an alternative investment program. These investment options are not available to members in other funds managed by Public Employees' Retirement Fund.

IMPORTANT REMINDERS

KEEP IN TOUCH

It cannot be overstated how important it is to maintain your current address with our office. The current mobility of the people in today's society creates serious challenges for PERF in staying in touch with the people we serve.

Every year, more and more people choose to move to another country, another state, or just across town. Without being properly notified, our office struggles to communicate with you as a member unless we know how to stay in contact. The nature of our business is managing money for you and your employer. Somewhere down the road, you will be entitled to a payment of some kind, and we will need to know how and where to make that payment.

Please keep your address current with our office. It makes all the difference in our ability to serve you in a timely fashion.

PERF WEB SITE

With the changing technology of our industry, PERF is endeavoring to utilize the Internet more effectively to service our members. Upon visiting our web site, you will find many valuable resources at hand to aid in communicating with our employees and accessing important information regarding your membership in the fund.

We are always looking for new and better ways to provide information to you. The implementation of the new computer system we anticipate will enhance our efforts even more. Please feel free to offer your suggestions as to how we can improve. We rely on our members' feedback to help make needed improvements.

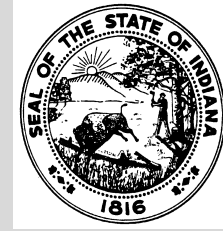
KEEP BENEFICIARIES CURRENT

As you read in the legislative update, retired PERF members are now eligible to change their retirement option and designate a new beneficiary. Changing the retirement option or designating a new beneficiary can occur in the event the member's spouse dies and the member remarries, or when the member marries after their retirement after being unmarried at the time of applying for retirement benefits.

Furthermore, in July of this year, members will be able to designate a beneficiary at the time of retirement that will take precedence over any previous persons named. Also at that time, members will be able for the first time to name separate beneficiaries for their the two pieces of the PERF retirement benefit: the Annuity Savings Account and the defined benefit.

Disputes pertaining to your intended beneficiary can create significant problems over who is entitled to your remaining retirement benefit upon your death. In order to avoid this confusion and assure your intentions are followed through, please keep your beneficiary current with our office.

MAY 2000



PUBLIC EMPLOYEES' RETIREMENT FUND

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